

**PROGRAM NARRATIVE****226 Department of Trust Lands****Date:** 12/23/2014**Time:** 12:08:14**Program:** Trust Lands**Reporting level:** 26-226-100-00-00-00-00000000**Program Performance Measures**

Performance within the Department of Trust Lands is measured by its continued ability to manage the assets of 13 permanent trusts and four other funds under its control; to preserve their purchasing power; and to maintain stable distributions to beneficiaries.

**Program Statistical Data**

1. The Bakken and Three Forks energy development activity has, and will continue to create significant growth for the trust funds managed by the Department.
2. The 13 combined permanent trust funds' financial assets managed by the Department grew by 61% from \$2.041 billion on June 30, 2012 to \$3.28 billion on June 30, 2014. Total assets increased by 264% in the five years since 2009, when the permanent trusts funds had a balance of \$900 million.
3. The financial assets of 4 other funds managed by the Department increased from \$456 million in 2012 to \$1.47 billion on June 30, 2014. The balance in these funds was \$95.5 million on June 30, 2009.
4. The 18<sup>th</sup> account administered by the Department is the Oil and Gas Impact Grant Fund, which grew to \$240 million from \$135 million in the 2011-2013 biennium; previously the fund cap was \$8 million.
5. During FY 2013, a total of 801 oil and gas leases were issued on 68,525 mineral acres. During FY 2014, a total of 1,024 leases involving 82,463 mineral acres were issued. Total bonuses received for mineral leases in FY 2013 were \$69.1 million and \$35.6 million in FY 2014.
6. As of June 30, 2014, the Department managed 9,752 active oil and gas leases of which 6,671 were "held by production" status. At the end of FY 2013, the total number of active leases was 9,602 including 5,621 in "held by production" status.
7. The Department collected oil and gas royalty revenue of \$302.7 million during FY 2014 and \$275.8 million during FY 2013. Royalty revenues have increased 49% from FY 2012 to FY 2014.
8. The Revenue Compliance Division collected more than \$8.5 million of additional royalties, penalties, and taxes during FY 2014 as a result of revenue compliance efforts.
9. As of June 30, 2014, the Department monitored production from 3,572 producing wells, up from 1,483 two years earlier.
10. The Department staff processed over 205,387 royalty revenue records during FY 2014 a 415% increase over a four year period.
11. The investment program for the permanent trusts provided solid returns, as of June 30, 2014, averaging 11.74% for the preceding five years.
12. The Surface Management Division continued with more than a 99% leasing rate for agricultural tracts. Land improvement projects such as biological weed control and the range improvement program contributed to improved conditions of trust lands.
13. Surface income from easements and permits increased dramatically as a result of energy activity. Right-of-way applications have increased 453% since FY 2007 to a total of 426 applications in FY 2014.
14. Gravel leasing and reclamation has become a substantial part of the surface management activities, fueled by demand for both roads and well pads.
15. Enhanced technology, automated programs and GIS data systems for better and more accurate management of trust acreage. Right-of-way applications and field inspections are electronically submitted and managed. Temporary field employees work from fully integrated home based offices increasing responsiveness to energy industry requests and reducing travel time and expense.
16. The Unclaimed Property Division processed 5,891 property claims totaling \$4 million during fiscal years 2013 and 2014. The division increased public exposure by posting notices in all newspapers in the state and has reached a broader audience through local and cooperative national internet awareness campaigns.
17. Managed a major expansion of the oil and gas impact grants from \$130 million to \$250 million (including \$9.6 million of AG law enforcement grants).
18. The Energy Infrastructure and Impact Office application processing increased 60% from 422 in FY 2011 to 676 in FY 2014. The total amount of award commitments increased from \$3.9 million in 2011 to \$142 million in 2014.
19. The Energy Infrastructure and Impact Office payment reimbursement requests increased from \$3,766,389 in FY 2011 to \$61,359,395 in FY 2014, and the average reimbursement payment increased from \$9,032 in 2011 to \$121,745 in 2014, an increase of 1,348%.
20. The Energy Infrastructure and Impact Office average award amount increased from \$14,704 in FY 2011 to \$462,389 in FY 2014.
21. Number of grant rounds performed increased from 1 in 2011 to 5 in FY 2012 and FY 2013 to 13 in 2014.
22. Completed a legislatively directed \$50,000 study of land use and management options for land associated with Lakes Sakakawea and Oahe.

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The management of assets falls within three main divisions: mineral, surface and investments.

The Minerals Management Division is responsible for leasing and managing 2.6 million minerals acres including oil, gas, potash, and coal. The division is responsible for the leasing of minerals acres and the maintenance of all records and requests pertaining to mineral activity. The division tracks and interprets business transactions by lessees of the state minerals; assignments by depth, formation, wellbore or value; requests for pooling agreements; lease and title interpretation; royalty; authorization for participation in production; overrides; and analysis of drilling and production data necessary to hold a producing lease. This division has five (5) FTEs including the division director; two land professionals dedicated to oversight of the complex and controversial issues of sovereign minerals beneath the bed of the navigable rivers; a mineral title specialist who reviews both historical records as well as assesses the unique leasing arrangements requested by lessees and a support staff who processes leases, division orders and assignments.

The Surface Management Division is responsible for leasing and managing 707,000 surface acres. The division has five (5) FTEs, including the division director, and nine (9) temporary employees. The land management specialists and field inspectors all have the objective of managing surface acreage to obtain a "fair market" return from the lands while maintaining and improving its condition and value. The division manages leasing of land to farmers and ranchers and is responsible for the maintenance of farm and range land integrity; monitoring surface use and disturbance including easement and right-of way processing, well locations, aggregate and other surface mineral prospecting and leasing; and reclamation monitoring. One (1) FTE within the division contributes ¼-time to the minerals division to assist with digitized records systems.

The Investments Division is responsible for directing, implementing, and balancing the Land Board's investment program. It currently has 1.5 FTE, including the division director. Besides the monitoring funds and investment managers; the division calculates and initiates distributions to trust beneficiaries; and an increasingly complex responsibility is the oversight of the cash flows and obligations of the Strategic Investment and Improvements Fund (SIIF), including school construction loans and transfers.

The Unclaimed Property Division administers the Unclaimed Property Act including holder compliance and the processing of owner claims for lost or forgotten property. The division has one (1) FTE, which is temporarily held by the Department operations director while recruitment for a new administrator is underway.

The Energy Infrastructure and Impact Office consists of two (2) FTEs, an administrator and one additional staff person serving as grants manager. The office is responsible for administering the \$240 million grant program to assist cities, townships, schools, emergency services and other political subdivisions realizing direct impacts to public infrastructure from oil and gas development. The office also administers a loan program for coal development impacted political subdivisions from funds in the coal development trust fund, and continues to distribute the grants awarded in a 2011 \$30 million flood impact grant program, and carried-over oil impact grants from previous biennia.

The Operations Division includes four sub-units responsible for providing accounting, revenue compliance, information technology and clerical support services to the Department. The full division currently has thirteen and a half FTEs; including the division director who also oversees Department human resource and communication functions.

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- The four (4) FTEs in revenue compliance are responsible for timely and accurate accounting of all royalties, bonuses, rents and other revenues received by the department.
- There are two (2) FTEs in accounting responsible for financial reporting, the Department's general ledger, tracking operational expenses, budget management, payroll and overseeing procurement compliance.
- The office administrative support unit includes an office manager, and three (3) administrative assistants, and one temporary staff. This section provides office and clerical support for the entire department, is collectively responsible for switchboard, mail processing, check batching, building management, records retention and supplies.
- The information technology section has 3.5 FTEs including a half time information technology manager, two programmer analysts, and a computer and network specialist. The IT section maintains database services, digital record management, the department website and PC support.

**Program Goals and Objectives**

The primary role of the Board of University and School Lands and the Department of Trust Lands is to manage the 13 permanent trust funds under its control, to preserve the purchasing power of the trusts and to maintain stable distributions to trust beneficiaries. Those beneficiaries include local school districts, various colleges and universities, and other institutions in North Dakota. Permanent Trust revenues are generated for the trusts through the prudent management of trust assets, consisting of 707,000 surface acres, 2.6 million mineral acres, and \$3.243 billion of financial assets (loans, marketable securities, and cash equivalents). The surface acres are leased to ranchers and farmers. The mineral acres are leased for the production of oil, gas, coal, potash, for the mining of gravel, scoria, and aggregate.

Revenues are deposited into the permanent trust funds and are invested in various assets including U.S. government and agency securities, corporate bonds, publicly traded stocks, North Dakota farm real estate loans, and cash equivalents. Distributions to permanent trust beneficiaries are made at specified intervals throughout the biennium and are determined based upon the average value of the financial assets of the trusts.

The Department also manages five additional funds.

- 1) The Strategic Investment and Improvements Fund consist of 759,768 mineral acres of state acquired and sovereign minerals located under navigable rivers and lakes, the fund balance at close of FY 2014 was \$1.4 billion.
- 2) The Coal Development Trust Fund is managed to provide loans to coal development impacted counties, cities, and school districts; and to provide school construction loans statewide, its balance was \$66.4 million at the end of the FY 2014.
- 3) The Capitol Building Trust Fund consists of approximately 10,000 acres and its income is managed for the construction and maintenance of public buildings at the capitol. It held \$4.8 million at the close of FY 2014.
- 4) The Indian Cultural Education Trust Fund consist of 160 acres and its funds are managed to benefit Native American cultural purposes, its balance at the end of fiscal year 2014 was approximately \$866,888.

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5) The Oil and Gas Impact Grant Fund receives a portion of the gross production tax, and will have a total deposits of \$240 million during the biennium.

The Department also administers the Unclaimed Property Act. In this capacity the Department collects “unclaimed property” (uncashed checks, unused bank accounts, etc.), and processes owners’ claims. This property is held in trust for the owner to claim, but the revenue from the investment of the property benefits the Common Schools Trust Fund.

An expanded role of the Department is operating the Energy Infrastructure and Impact Office which provides financial support to political subdivisions that are affected by energy development in the state. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program. The office also administered the Flood Impacted Political Subdivision Infrastructure Development Grant program.

**REQUEST DETAIL BY PROGRAM**

226 Department of Trust Lands

Bill#: HB1013

Date: 12/23/2014

Biennium: 2015-2017

Time: 12:08:14

Program: Trust Lands		Reporting Level: 26-226-100-00-00-00-00000000			
Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Request 2015-2017
<b>Salaries and Wages</b>					
Salaries - Permanent	2,786,737	3,357,655	392,135	3,749,790	431,568
Temporary Salaries	81,282	250,000	(104,400)	145,600	0
Overtime	11	0	0	0	0
Fringe Benefits	1,005,387	1,549,360	(102,825)	1,446,535	175,788
<b>Total</b>	<b>3,873,417</b>	<b>5,157,015</b>	<b>184,910</b>	<b>5,341,925</b>	<b>607,356</b>
<b>Salaries and Wages</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	3,873,417	5,157,015	184,910	5,341,925	607,356
<b>Total</b>	<b>3,873,417</b>	<b>5,157,015</b>	<b>184,910</b>	<b>5,341,925</b>	<b>607,356</b>
<b>Accrued Leave Payments</b>					
Salaries - Permanent	0	108,541	(108,541)	0	0
<b>Total</b>	<b>0</b>	<b>108,541</b>	<b>(108,541)</b>	<b>0</b>	<b>0</b>
<b>Accrued Leave Payments</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	108,541	(108,541)	0	0
<b>Total</b>	<b>0</b>	<b>108,541</b>	<b>(108,541)</b>	<b>0</b>	<b>0</b>
<b>Operating Expenses</b>					
Travel	107,871	275,938	(125,900)	150,038	83,500
Supplies - IT Software	16,163	57,458	0	57,458	2,700
Supply/Material-Professional	7,981	14,301	0	14,301	0
Food and Clothing	152	0	0	0	0
Bldg, Ground, Maintenance	9,874	1,592	5,000	6,592	0
Miscellaneous Supplies	3,394	4,545	6,270	10,815	0
Office Supplies	13,851	32,434	0	32,434	6,000
Postage	26,684	34,760	(14,760)	20,000	0
Printing	18,671	23,627	(9,700)	13,927	0
IT Equip Under \$5,000	29,596	97,048	0	97,048	10,100
Other Equip Under \$5,000	16,840	10,324	0	10,324	0
Office Equip & Furn Supplies	34,571	60,660	(48,000)	12,660	49,600
Utilities	23,123	58,985	0	58,985	0
Insurance	9,307	14,230	0	14,230	0
Rentals/Leases-Equip & Other	170	228	(1,820)	(1,592)	0

**REQUEST DETAIL BY PROGRAM**

226 Department of Trust Lands

Bill#: HB1013

Date: 12/23/2014

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Biennium: 2015-2017

Program: Trust Lands		Reporting Level: 26-226-100-00-00-00-00000000			
Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Request 2015-2017
Rentals/Leases - Bldg/Land	81,250	104,500	10,000	114,500	80,000
Repairs	60,418	78,100	20,000	98,100	0
IT - Data Processing	106,175	213,987	30,000	243,987	64,200
IT - Communications	37,944	48,529	3,000	51,529	3,375
Professional Development	36,162	78,725	50,000	128,725	7,500
Operating Fees and Services	45,496	231,221	260,000	491,221	250
Fees - Professional Services	97,306	534,671	95,000	629,671	0
<b>Total</b>	<b>782,999</b>	<b>1,975,863</b>	<b>279,090</b>	<b>2,254,953</b>	<b>307,225</b>
<b>Operating Expenses</b>					
General Fund	0	0	0	0	116,765
Federal Funds	0	0	0	0	0
Special Funds	782,999	1,975,863	279,090	2,254,953	190,460
<b>Total</b>	<b>782,999</b>	<b>1,975,863</b>	<b>279,090</b>	<b>2,254,953</b>	<b>307,225</b>
<b>Capital Assets</b>					
Equipment Over \$5000	13,545	65,550	(65,550)	0	0
Motor Vehicles	25,550	0	0	0	0
<b>Total</b>	<b>39,095</b>	<b>65,550</b>	<b>(65,550)</b>	<b>0</b>	<b>0</b>
<b>Capital Assets</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	39,095	65,550	(65,550)	0	0
<b>Total</b>	<b>39,095</b>	<b>65,550</b>	<b>(65,550)</b>	<b>0</b>	<b>0</b>
<b>Other Grants</b>					
Grants, Benefits & Claims	66,501,684	239,299,174	(239,299,174)	0	0
<b>Total</b>	<b>66,501,684</b>	<b>239,299,174</b>	<b>(239,299,174)</b>	<b>0</b>	<b>0</b>
<b>Other Grants</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	66,501,684	239,299,174	(239,299,174)	0	0
<b>Total</b>	<b>66,501,684</b>	<b>239,299,174</b>	<b>(239,299,174)</b>	<b>0</b>	<b>0</b>
<b>Flood Infrastructure Develop. Grants</b>					
Salaries - Permanent	12,558	0	0	0	0

# REQUEST DETAIL BY PROGRAM

226 Department of Trust Lands

Bill#: HB1013

Date: 12/23/2014

Time: 12:08:14

Biennium: 2015-2017

Program: Trust Lands		Reporting Level: 26-226-100-00-00-00-00000000			
Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Request 2015-2017
Temporary Salaries	17,045	0	0	0	0
Fringe Benefits	5,327	0	0	0	0
Travel	1,264	0	0	0	0
Postage	106	0	0	0	0
Operating Fees and Services	71,451	0	0	0	0
Fees - Professional Services	2,250	0	0	0	0
Grants, Benefits & Claims	3,735,237	26,154,763	(26,154,763)	0	0
<b>Total</b>	<b>3,845,238</b>	<b>26,154,763</b>	<b>(26,154,763)</b>	<b>0</b>	<b>0</b>
<b>Flood Infrastructure Develop. Grants</b>					
General Fund	3,845,238	26,154,763	(26,154,763)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
<b>Total</b>	<b>3,845,238</b>	<b>26,154,763</b>	<b>(26,154,763)</b>	<b>0</b>	<b>0</b>
<b>Contingencies</b>					
Temporary Salaries	0	100,000	(100,000)	0	0
Operating Fees and Services	0	100,000	0	100,000	0
<b>Total</b>	<b>0</b>	<b>200,000</b>	<b>(100,000)</b>	<b>100,000</b>	<b>0</b>
<b>Contingencies</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	200,000	(100,000)	100,000	0
<b>Total</b>	<b>0</b>	<b>200,000</b>	<b>(100,000)</b>	<b>100,000</b>	<b>0</b>
<b>Energy Infrastructure &amp; Impact</b>					
Salaries - Permanent	0	350,709	(37,731)	312,978	137,568
Temporary Salaries	0	50,000	64,400	114,400	0
Fringe Benefits	0	136,563	(8,456)	128,107	57,387
Travel	0	27,780	0	27,780	0
Supplies - IT Software	0	3,545	0	3,545	0
Supply/Material-Professional	0	350	0	350	0
Miscellaneous Supplies	0	385	0	385	0
Office Supplies	0	2,590	0	2,590	0
Postage	0	2,225	0	2,225	0
Printing	0	90	0	90	0
IT Equip Under \$5,000	0	3,200	0	3,200	0
Office Equip & Furn Supplies	0	4,800	0	4,800	0

**REQUEST DETAIL BY PROGRAM**

226 Department of Trust Lands

Bill#: HB1013

Date: 12/23/2014

Biennium: 2015-2017

Time: 12:08:14

Program: Trust Lands		Reporting Level: 26-226-100-00-00-00-00000000			
Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Request 2015-2017
Rentals/Leases - Bldg/Land	0	9,801	0	9,801	0
IT - Data Processing	0	41,281	0	41,281	0
IT - Communications	0	1,103	0	1,103	0
Operating Fees and Services	0	1,710	0	1,710	0
Fees - Professional Services	0	64,694	0	64,694	0
<b>Total</b>	<b>0</b>	<b>700,826</b>	<b>18,213</b>	<b>719,039</b>	<b>194,955</b>
<b>Energy Infrastructure &amp; Impact</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	700,826	18,213	719,039	194,955
<b>Total</b>	<b>0</b>	<b>700,826</b>	<b>18,213</b>	<b>719,039</b>	<b>194,955</b>
<b>Total Expenditures</b>	<b>75,042,433</b>	<b>273,661,732</b>	<b>(265,245,815)</b>	<b>8,415,917</b>	<b>1,109,536</b>
<b>Funding Sources</b>					
<b>General Fund</b>					
<b>Total</b>	<b>3,845,238</b>	<b>26,154,763</b>	<b>(26,154,763)</b>	<b>0</b>	<b>116,765</b>
<b>Special Funds</b>					
003 Special Fund Budget	0	0	0	0	0
206 Trust Lands Maint. Fund	4,695,511	7,506,969	(88,891)	7,418,078	797,816
238 Energy Development Impact Fund	66,501,684	240,000,000	(239,002,161)	997,839	194,955
<b>Total</b>	<b>71,197,195</b>	<b>247,506,969</b>	<b>(239,091,052)</b>	<b>8,415,917</b>	<b>992,771</b>
<b>Total Funding Sources</b>	<b>75,042,433</b>	<b>273,661,732</b>	<b>(265,245,815)</b>	<b>8,415,917</b>	<b>1,109,536</b>
<b>FTE Employees</b>	<b>24.75</b>	<b>31.00</b>	<b>0.00</b>	<b>31.00</b>	<b>5.00</b>



## CHANGE PACKAGE DETAIL

226 Department of Trust Lands

Biennium: 2015-2017

Bill#: HB1013

Date: 12/23/2014

Time: 12:08:14

Program: Trust Lands			Reporting Level: 26-226-100-00-00-00-00000000			
Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds

### Base Budget Changes

#### One Time Budget Changes

A-B 22607 Continuing education		0.00	0	0	50,000	50,000
A-B 23804 Remove funding for flood infrastruture devel		0.00	(26,154,763)	0	0	(26,154,763)
A-E 22610 Remove Private Land Study appropriation		0.00	0	0	(50,000)	(50,000)
<b>Total One Time Budget Changes</b>		<b>0.00</b>	<b>(26,154,763)</b>	<b>0</b>	<b>0</b>	<b>(26,154,763)</b>

#### Ongoing Budget Changes

A-A 22606 Inflationary increase in base budget		0.00	0	0	200,770	200,770
A-A 22609 Reduce operating costs in base budget		0.00	0	0	(200,480)	(200,480)
A-A 23801 Increase in base budget for EIIO		0.00	0	0	278,800	278,800
A-A 23803 Remove additional funding from 2013-15 bienn		0.00	0	0	(239,299,174)	(239,299,174)
A-F 22608 Remove Capital Asset		0.00	0	0	(65,550)	(65,550)
Base Payroll Change		0.00	0	0	(5,418)	(5,418)
<b>Total Ongoing Budget Changes</b>		<b>0.00</b>	<b>0</b>	<b>0</b>	<b>(239,091,052)</b>	<b>(239,091,052)</b>

#### Total Base Budget Changes

<b>0.00</b>	<b>(26,154,763)</b>	<b>0</b>	<b>(239,091,052)</b>	<b>(265,245,815)</b>
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### Optional Budget Changes

#### Ongoing Optional Changes

A-C 22611 Additional office space - Dept of Trust Land		0.00	0	0	73,900	73,900
A-C 23802 Additional office space - EIIO		0.00	83,500	0	0	83,500
A-C 22601 New FTE - Land Management Specialist	1	1.00	0	0	198,278	198,278
A-C 22602 New FTE - Public Information Officer and Pol	2	1.00	0	0	198,278	198,278
A-C 22603 New FTE - Energy Impact Office Compliance Of	3	1.00	33,265	0	153,703	186,968
A-C 22604 New FTE - Unclaimed Property Outreach and Co	4	1.00	0	0	186,968	186,968
A-C 22605 New FTE - Strategic Investment and Improveme	5	1.00	0	0	181,644	181,644
<b>Total Ongoing Optional Changes</b>		<b>5.00</b>	<b>116,765</b>	<b>0</b>	<b>992,771</b>	<b>1,109,536</b>

#### Total Optional Budget Changes

<b>5.00</b>	<b>116,765</b>	<b>0</b>	<b>992,771</b>	<b>1,109,536</b>
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